ONTARIO ENERGY CORPORATION

Annual Report 1989

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THE YEAR'S HIGHLIGHTS

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PRESIDENT'S REPORT

In 1989, the Corporation continued its divestment mandate to wind down operations and effect a prudent disposal of its investments.

The Corporation rationalized its structure and completed the dissolution of its subsidiary corporations of Onexco Oil & Gas Ltd., Ontario Energy Ventures Limited, and Ontario Energy Resources Ltd., and transferred all associated assets and liabilities to the parent Corporation.

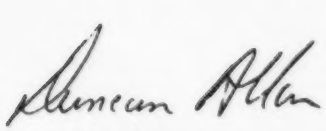
The Corporation's revenue in 1989 amounted to $2.1 million while expenses totalled $241 thousand, resulting in income from operations of $1.9 million. In 1989, Suncor Inc. reported income of $49 million. The Corporation accounts for its 25% interest in Suncor Inc. using the equity method. This equity in the income of Suncor Inc. resulted in reported income of $12 million increasing net income to $13.9 million.

In 1989, the Corporation realized an additional $730 thousand from the sale of its investments. A special dividend of $28 million was made to its Government Shareholder on January 23, 1989. At year end, the Corporation had $11.3 million in cash and short-term investments.

At this point, all the Corporation's oil and gas assets have been sold, and its venture capital investments sold, wound up or liquidated. Ontario Energy Corporation's remaining assets consist of its Suncor Inc. holding and its remaining cash and short-term investments.

This year, two board members have resigned. I would like to acknowledge the service and contribution of Mr. Donald S. McColl and Mr. Ed Ciemiega. I would also like to commend the small core of officers and staff from the public service for their efforts and dedication.

Respectfully submitted on behalf of the Board:



Duncan M. Allan
President and Chief Executive Officer

BOARD OF DIRECTORS

Duncan M. Allan
Special Advisor to the Premier
Toronto Waterfront Development

Edward Ciemiega *
Director
Legal Services
Ministry of Energy

George A. Dominy
Manager, Oil & Gas Section
Ministry of Energy

Daniel J. Gagnier
Chief of Staff
Office of The Premier

Donald S. McColl *
Assistant Deputy Minister
Ministry of Treasury & Economics

Robert A. Simpson *
Deputy Minister
Ministry of Financial Institutions

* Member of Audit Committee

OFFICERS

Duncan M. Allan
Chairman
President and Chief Executive Officer

Victor A. Bailey
Treasurer

Robert Law
Secretary

AUDITORS

Deloitte & Touche

FINANCIAL STATEMENTS

PREPARATION AND REVIEW OF THE FINANCIAL STATEMENTS

The financial statements have been prepared by management in accordance with generally accepted accounting principles. Management is also responsible for the other information in the annual report, which is consistent with that contained in the financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through an Audit Committee of the Board, which is composed of directors who are not employees of the Corporation. The Audit Committee meets with management and the external auditors at least twice each year to satisfy itself that management's responsibilities are being properly discharged and to review annually the financial statements.

The external auditors, Deloitte & Touche, conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the Corporation's financial statements. The auditors' examination includes a review and evaluation of the Corporation's system of internal control. Appropriate tests and other procedures are conducted to provide reasonable assurance that the financial statements are presented fairly. The external auditors have full and free access to the Audit Committee of the Board. The Provincial Auditor has access and reviews from time to time the working paper files of the external auditors.

AUDITORS' REPORT

TO THE SHAREHOLDER OF ONTARIO ENERGY CORPORATION

We have examined the balance sheet of Ontario Energy Corporation as at December 31, 1989 and the statements of income and deficit and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte & Touche

Chartered Accountants
Toronto, Canada
May 5, 1990

STATEMENT OF INCOME AND DEFICIT
Year ended December 31, 1989

	1989	1988
	(000's)	
REVENUE		
Interest	$ 1,416	$ 2,217
Gain on Disposal of Investments (Note 2)	730	2,200
	2,146	4,417
EXPENSES		
General and administrative	241	500
INCOME FROM OPERATIONS	1,905	3,917
EQUITY IN INCOME (LOSS) OF SUNCOR INC. (Note 3)	12,000	(12,500)
NET INCOME (LOSS)	13,905	(8,583)
DIVIDEND	(28,000)	(20,000)
DEFICIT, BEGINNING OF YEAR	(130,753)	(102,170)
DEFICIT, END OF YEAR	$(144,848)	$(130,753)

BALANCE SHEET
December 31, 1989

ASSETS		
CURRENT ASSETS		
Cash and short-term investments	$ 11,319	$ 37,435
INVESTMENT IN SUNCOR INC. (Note 3)	266,594	254,594
	277,913	292,029
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable & accrued liabilities	$ 46	$ 67
SHAREHOLDER'S EQUITY		
SHARE CAPITAL (Note 4)	97,715	97,715
CONTRIBUTED SURPLUS	325,000	325,000
DEFICIT	(144,848)	(130,753)
	277,867	291,962
	$ 277,913	$ 292,029

Approved by the Board:

Duncan M. Allan, Director

Robert A. Simpson, Director

STATEMENT OF CHANGES IN FINANCIAL POSITION
Year ended December 31, 1989

	1989	1988
	(000's)	
OPERATING ACTIVITIES		
Net Income (loss)	$ 13,905	$ (8,583)
Items not affecting cash flow		
Equity in income of Suncor Inc.	(12,000)	12,500
Gain on disposal of investments	(730)	(2,200)
	1,175	1,717
Proceeds on sale of investments	730	25,400
Suncor Inc. dividends	-	5,325
Investments	-	(868)
	1,905	31,574
Changes in operating working capital		
Accounts payable & accrued charges	(21)	(161)
Cash provided by operating activities	1,884	31,413
DIVIDENDS PAID	(28,000)	(20,000)
(DECREASE) INCREASE IN CASH AND SHORT-TERM INVESTMENTS	(26,116)	11,413
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	37,435	26,022
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	$ 11,319	$ 37,435

NOTES TO THE FINANCIAL STATEMENTS
December 31, 1989

1. DESCRIPTION OF BUSINESS

The Ontario Energy Corporation has invested in, or otherwise participated in, energy projects with a view to enhancing the availability of energy in Ontario. It has determined to seek prudent disposal of its investments.

On April 6, 1989, by special resolutions of the shareholders, there was a voluntary dissolution of the Corporation's subsidiaries, Ontario Energy Ventures Limited, Onexco Oil & Gas Ltd. and Ontario Energy Resources Ltd. All property of the subsidiaries was distributed to the Corporation and all outstanding debts due to the Corporation were forgiven.

2. GAIN ON DISPOSAL OF INVESTMENTS

As at December 31, 1988, additional proceeds with respect to investments disposed of during 1988, were contingent on specified future events. As a result, revenue of $730 thousand was received and recorded as an additional gain on disposal in 1989.

3. INVESTMENT IN SUNCOR INC.

The investment in 25% of the shares of Suncor Inc. is accounted for using the equity method.

Summarized financial information of Suncor Inc. as at December 31 is as follows:

	1989	1988
	(in millions)	
Working capital	$ 40	$ 32
Total assets	$ 2,048	$ 2,023
Shareholders' equity		
Preferred shares	$ 7	$ 7
Common shares and retained earnings	1,064	1,016
	$ 1,071	$ 1,023
Revenue	$ 1,488	$ 1,345
Net income (loss)	$ 49	$ (49)
Cash dividends on common shares	$ -	$ 21
Stock dividends on common shares	21	-
	$ 21	$ 21

4. SHARE CAPITAL

Share capital - December 31, 1989 and 1988	(000's)
Authorized	
An unlimited number of common shares	
20,000,000 non-voting special shares	
Issued	
2,000,000 common shares	$ 100,000
Less	
45,708 common shares held in Treasury, at cost	2,285
	$ 97,715

5. INCOME TAXES

The Corporation is not subject to income tax so long as not less than 90% of the outstanding shares of the Corporation are held directly by the Province of Ontario. All of the Corporation's outstanding shares are presently held by the Province of Ontario.